

This record is a partial extract of the original cable. The full text of the original cable is not available.

211547Z Jun 04

UNCLAS ANKARA 003503

SIPDIS

SENSITIVE

STATE FOR E, EUR/SE AND EB/IFD
TREASURY FOR OASIA - LOEVINGER, MILLS, ADKINS
NSC FOR BRYZA AND MCKIBBEN

E.O. 12958: N/A

TAGS: [EFIN](#) [PREL](#) [TU](#)

SUBJECT: GOT MOVES SLOWLY TO COMPLETE 8TH REVIEW, NOT READY
TO COMMIT FOR 2005

REF: A. (A) ANKARA 3409

[1](#)B. (B) ANKARA 3202

[1](#)1. (SBU) IMF ResRep Odd Per Brekk told us June 21 that the IMF mission working on the 8th review expected to leave June 22 (later than expected), but he still was not sure whether they would resolve all issues before their departure. The main outstanding issue concerns the GOT's insistence on continuing to squeeze the petroleum excise tax -- to keep domestic fuel prices steady in the face of rising prices worldwide -- despite its negative fiscal impact. The team will meet State Minister Babacan tonight in hopes of resolving this last big obstacle.

[1](#)2. (SBU) Brekk said that, as expected, the team and the GOT had not formally discussed a possible follow-on program, and the GOT as yet was unwilling to commit to seek one (even with growing concerns about the current account deficit). He added that the GOT was not even willing to commit to a primary surplus target for 2005. While there was "nothing magical" about the 6.5 percent of GNP figure from a mathematical perspective, the GOT's mishandling of the issue had made it harder for the Fund to agree a lower number. Brekk explained that, with the Prime Minister having publicly called for reducing the target to 5.5 percent (without consulting with the Fund), IMF agreement to such a lower number now would add to perceptions that it was too "soft," and would thereby undermine the credibility of the program.

[1](#)3. (SBU) In a separate conversation June 19, ex-Treasury Undersecretary Faik Oztrak sharply criticized the government for failing to recognize the country's continuing economic vulnerability and for failing to begin lobbying G-7 countries to support a new, large Stand-By Arrangement. Oztrak estimated the country's 2005 external financing gap at \$8 billion or greater, and argued that Turkey would need a new \$12 billion (over three years) Stand-By. He warned that, out of ignorance, the GOT was making two dangerous miscalculations that could come back to haunt it: (a) that the Fund was anxious to provide additional funding (despite its huge exposure) because it needs a success story, and (b) that IMF team leader Reza Moghadam -- not the IMF Board and the G-7 Finance Ministers -- would be the key player in determining additional IMF support.

[1](#)4. (SBU) Oztrak also took a shot at the IMF, arguing (as have many others) that the Fund was not tough enough in 2003, and let the GOT get away with a weak policy performance. Oztrak believes Fund staff decided that a more flexible approach was the best way to convince the GOT leadership of the need for reform, but that this approach failed because senior government officials "just don't understand and will not understand" the need for sound policy and further reform.

EDELMAN